



For the Nine Months Ended July 31, 2017

## Consolidated Interim Financial Statements

(Expressed in U.S. dollars)

(Unaudited ó Prepared by Management)

- Notice of No Auditor Review of Consolidated Financial Statements
- Consolidated Interim Statements of Financial Position
- Consolidated Interim Statements of Comprehensive Loss
- Consolidated Interim Statements of Changes in Equity
- Consolidated Interim Statements of Cash Flows
- Notes to the Consolidated Financial Statements

## **NOTICE OF NO AUDITOR REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3), if an auditor has not performed a review of the consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated interim financial statements of Canaf Group Inc. for the period ended July 31, 2017 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of consolidated interim financial statements by an entity's auditor.

# CANAF GROUP INC.

## Consolidated Interim Statements of Financial Position

(Expressed in U.S. Dollars)

(Unaudited)

	Note	July 31, 2017 \$	October 31, 2016 \$
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash		671,367	380,562
Trade Receivables	14	907,084	643,645
Income Tax Receivable		27,960	-
Sales Tax Receivable	4	1,575	17,870
Inventories	5	504,600	403,329
Prepaid Expense and Deposits		39,166	27,220
		<u>2,151,752</u>	<u>1,472,626</u>
<b>NON-CURRENT</b>			
Property, Plant and Equipment	6	1,202,245	1,256,691
Intangible		1	1
		<u>3,353,998</u>	<u>2,729,318</u>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Trade and Other Payables	7	732,024	540,065
Sales Tax Receivable		39,234	-
Income Taxes Payable		958	941
Current Portion of Bank Loan	8	78,590	298,244
		<u>850,806</u>	<u>839,250</u>
<b>NON-CURRENT</b>			
Bank Loan	8	411,488	403,986
Deferred Tax Liability		-	17,108
		<u>1,262,294</u>	<u>1,260,344</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share Capital	9	8,079,463	8,079,463
Accumulated Other Comprehensive Loss ó			
Foreign Currency Translation Reserve		(1,334,470)	(1,361,484)
Deficit		(4,653,289)	(5,249,005)
		<u>2,091,704</u>	<u>1,468,974</u>
		<u>3,353,998</u>	<u>2,729,318</u>

Nature of Operations (Note 1)

Economic Dependence (Note 14)

Commitment (Note 15)

Segment Information (Note 16)

The accompanying notes are an integral part of the consolidated financial statements.

Approved on Behalf of the Board:

öChristopher Wayö

Christopher Way, Director

öKevin Corriganö

Kevin Corrigan, Director

# CANAF GROUP INC.

## Consolidated Interim Statements of Comprehensive Income

(Expressed in U.S. Dollars)

(Unaudited)

		Three Months Ended		Nine Months Ended	
		July 31,		July 31,	
		2017	2016	2017	2016
	Notes	\$	\$	\$	\$
<b>SALES</b>		1,961,208	1,126,582	8,443,667	2,907,198
<b>COST OF SALES</b>	12	1,756,888	1,027,616	7,554,442	2,898,329
<b>GROSS PROFIT (LOSS)</b>		204,320	98,966	889,225	8,869
<b>EXPENSES</b>					
General and Administrative	13	105,199	86,452	312,829	263,129
Interest on Bank Loan	8	12,762	17,288	42,420	55,661
		(117,961)	(103,740)	(355,249)	(318,790)
<b>INCOME (LOSS) BEFORE OTHER ITEMS</b>		86,359	(4,774)	533,976	(309,921)
Interest Income		2,996	2,848	12,177	4,921
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>		89,355	(1,926)	546,153	(305,000)
Income Taxes		76,709	21,871	49,563	(10,919)
<b>NET INCOME (LOSS) FOR THE PERIOD</b>		166,064	19,945	595,716	(315,919)
<b>OTHER COMPREHENSIVE LOSS</b>					
Foreign Currency Translation Gain (Loss)		21,732	28,437	27,014	(37,485)
<b>NET COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD</b>		187,796	48,382	622,730	(353,404)
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>		0.00	0.00	0.01	(0.00)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED</b>		47,426,195	47,426,195	47,426,195	47,426,195

The accompanying notes are an integral part of the consolidated financial statements.

# CANAF GROUP INC.

## Consolidated Interim Statements of Changes in Equity

(Expressed in U.S. Dollars)

(Unaudited)

	Number of Common Shares	Share Capital \$	Reserve for Stock Options \$	Foreign Currency Translation Reserve \$	Deficit \$	Total Shareholders' Equity \$
<b>Balance, October 31, 2015</b>	47,426,195	8,079,463	-	(1,378,574)	(5,069,850)	1,631,039
Net Income for the Period	-	-	-	-	(315,919)	(315,919)
Foreign Currency Translation Loss	-	-	-	(37,485)	-	(37,485)
<b>Balance, July 31, 2016</b>	47,426,195	8,079,463	-	(1,416,059)	(5,385,769)	1,277,635
<b>Balance, October 31, 2016</b>	47,426,195	8,079,463	-	(1,361,484)	(5,249,005)	1,468,974
Net Income for the Period	-	-	-	-	595,716	595,716
Foreign Currency Translation Gain	-	-	-	27,014	-	27,014
<b>Balance, July 31, 2017</b>	47,426,195	8,079,463	-	(1,334,470)	(4,653,289)	2,091,704

The accompanying notes are an integral part of the consolidated financial statements.

# CANAF GROUP INC.

## Consolidated Interim Statements of Cash Flows

(Expressed in U.S. Dollars)

(Unaudited)

		Three Months Ended		Nine Months Ended	
		July 31,		July 31,	
		2017	2016	2017	2016
	Notes	\$	\$	\$	\$
<b>CASH PROVIDED BY (USED FOR):</b>					
<b>OPERATING ACTIVITIES</b>					
Net Income (Loss) for the Period		166,064	19,945	595,716	(315,919)
Non-Cash Items					
Depreciation ó Cost of Sales		100,186	87,627	293,312	254,989
		266,250	107,572	889,028	(60,930)
Change in Non-Cash Working Capital Accounts	11(a)	509,094	57,697	(174,219)	307,070
		775,344	165,269	714,809	246,140
<b>FINANCING ACTIVITIES</b>					
Principal Repayments of Bank Loan		(70,202)	(46,967)	(212,152)	(200,091)
		(70,202)	(46,967)	(212,152)	(200,091)
<b>INVESTING ACTIVITY</b>					
Purchase of Property, Plant and Equipment		(48,934)	(136,924)	(238,866)	(117,102)
<b>INCREASE (DECREASE) IN CASH</b>					
Effect of Exchange Rate Changes on Cash		21,732	28,437	27,014	(37,485)
Cash, Beginning of the Period		(6,573)	762,969	380,562	881,322
<b>CASH, END OF THE PERIOD</b>		<b>671,367</b>	<b>772,784</b>	<b>671,367</b>	<b>772,784</b>

Supplemental Cash Flow Information (Note 11)

The accompanying notes are an integral part of the consolidated financial statements.

# CANAF GROUP INC.

## Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended July 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

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### NOTE 1 – NATURE OF OPERATIONS

Canaf Group Inc. (the "Company") is incorporated in the Province of Alberta and owns and operates a coal processing plant in South Africa which processes coal and coal products into calcine, a coke substitute with a high carbon content.

The head office, principal address, and records office of the Company are located at Suite 500 ó 666 Burrard Street, Vancouver, British Columbia, Canada, V6C 2P6.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on the basis that the Company is a going concern and will be able to meet its obligations and continue its operations for its next fiscal year.

The Company's ability to continue as a going concern is dependent upon its ability to generate profitable operations from its coal processing business. Sales of the Company are substantially derived from two customers, and as a result, the Company is economically dependent on these customers (Note 14). The Company is dependent on the operating cash flows from its coal processing business and the financial support of its shareholders and related parties to finance its operations and to discharge liabilities in the normal course of business. Loss of a customer or reduced sales from a customer may have a material adverse effect on the Company's financial condition.

The Company has working capital of \$1,300,946 as at July 31, 2017. Management believes that the Company has sufficient cash resources to meet its obligations for at least 12 months from the end of the reporting period.

### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

#### a) Statement of Compliance

The consolidated interim financial statements have been prepared in accordance to IAS 34 *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements were approved and authorized for issue by the Board of Directors on September 25, 2017.

#### b) Basis of Preparation

These consolidated interim financial statements have been prepared on a historical cost basis. Cost is the fair value of the consideration given in exchange for net assets. These consolidated interim financial statements do not include all the information required for full annual financial statements. The consolidated interim financial statements should be read in conjunction with the Company's annual financial statements for the year ended October 31, 2016. The accounting policies, methods of computation and presentation applied in these financial statements are consistent with those of the previous financial year.

# CANAF GROUP INC.

## Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended July 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

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### NOTE 3 – ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new accounting standards, amendments to standards, and interpretations have been issued but not yet effective up the date of issuance of the Company's consolidated financial statements. The Company intends to adopt the following standards when it becomes effective.

#### a) IFRS 9 – Financial Instruments

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The mandatory effective date has been set for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company does not intend to early adopt IFRS 9. The Company has not yet determined the impact of this standard on its consolidated financial statements.

#### b) IFRS 15 – Revenue from Contracts with Customers

IFRS 15 clarifies the principles for recognizing revenue from contracts with customers. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company does not intend to early adopt IFRS 15. The Company has not yet determined the impact of this standard on its consolidated financial statements.

### NOTE 4 – SALES TAX RECEIVABLE (PAYABLE)

	July 31, 2017	October 31, 2016
	\$	\$
South African Value-Added Tax Receivable (Payable)	-	17,298
Canadian Goods and Services Tax Receivable	1,575	572
	<u>1,575</u>	<u>17,870</u>

### NOTE 5 – INVENTORIES

Raw Materials	380,635	286,009
Finished Goods ó Calcine	123,965	117,320
	<u>504,600</u>	<u>403,329</u>

# CANAF GROUP INC.

## Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended July 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

### NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

	Land \$	Building	Computer Equipment \$	Leasehold Improvements \$	Office Equipment \$	Plant and Equipment \$	Furniture & Fittings	Vehicles \$	Total \$
<b>COST</b>									
<b>Balance, October 31, 2016</b>	7,423	76,115	15,971	170,873	12,192	4,711,642	-	101,159	5,095,375
Additions	-	91,581	-	-	699	80,686	3,553	39,066	215,585
Foreign Currency Translation	-	2,630	297	3,172	241	55,629	-	1,288	63,257
<b>Balance, July 31, 2017</b>	<b>7,423</b>	<b>170,326</b>	<b>16,268</b>	<b>174,045</b>	<b>13,132</b>	<b>4,847,957</b>	<b>3,553</b>	<b>141,513</b>	<b>5,374,217</b>
<b>ACCUMULATED DEPRECIATION</b>									
<b>Balance, October 31, 2016</b>	-	6,597	15,172	163,132	10,914	3,566,537	-	76,332	3,838,684
Depreciation	-	2,166	260	6,832	743	272,817	242	10,252	293,312
Foreign Currency Translation	-	121	285	3,121	209	35,612	-	628	39,976
<b>Balance, July 31, 2017</b>	<b>-</b>	<b>8,884</b>	<b>15,717</b>	<b>173,085</b>	<b>11,866</b>	<b>3,874,966</b>	<b>242</b>	<b>87,212</b>	<b>4,171,972</b>
<b>NET BOOK VALUE</b>									
<b>October 31, 2016</b>	<b>7,423</b>	<b>69,518</b>	<b>799</b>	<b>7,741</b>	<b>1,278</b>	<b>1,145,105</b>		<b>24,827</b>	<b>1,256,691</b>
<b>July 31, 2017</b>	<b>7,423</b>	<b>161,442</b>	<b>551</b>	<b>960</b>	<b>1,266</b>	<b>972,991</b>	<b>3,311</b>	<b>54,301</b>	<b>1,202,245</b>

# CANAF GROUP INC.

## Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended July 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

### NOTE 7 – TRADE AND OTHER PAYABLES

	July 31, 2017	October 31, 2016
	\$	\$
Trade Payables	714,024	516,065
Accrued Liability	18,000	24,000
	<u>732,024</u>	<u>540,065</u>

### NOTE 8 – BANK LOAN

Bank Loan	490,078	702,230
Less: Current Portion	<u>(78,590)</u>	<u>(298,244)</u>
	<u>411,488</u>	<u>403,986</u>

The bank loan bears interest at 9.25% per annum, matures on January 7, 2019, and is secured by the Company's furnace acquired with the proceeds from the loan. The bank loan is repayable over 42 months in blended monthly payments of Rand 393,779 (\$29,230 translated at October 31, 2016 exchange rate). During the period ended July 31, 2017, the Company incurred interest expense totaling \$42,420 (October 31, 2016 ó \$71,721).

### NOTE 9 – SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without par value. As at July 31, 2017, the Company had 47,426,195 common shares issued and outstanding as presented in the consolidated statements of changes in shareholders' equity. There are no stock options and share purchase warrants outstanding as at October 31, 2016 and July 31, 2017.

### NOTE 10 – RELATED PARTY TRANSACTIONS

In addition to those transactions disclosed elsewhere in these consolidated financial statements, the Company has amounts owed to the following related parties:

- a) During the period ended July 31, 2017, the Company incurred accounting fees of \$30,282 (2016 ó \$30,434) to an Officer (also a Director) of the Company for administration and bookkeeping services.
- b) During the period ended July 31, 2017, the Company incurred consulting fees of \$49,900 (2016 ó \$51,677) to an Officer (also a Director) of the Company for administration and management services.
- d) The Company paid management fees of \$91,141 (2016 ó \$74,415) to three Directors of the Company for administration and management services in relation to the Company's coal processing business in South Africa.

All related party transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

# CANAF GROUP INC.

## Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended July 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

### NOTE 11 – SUPPLEMENTAL CASH FLOW INFORMATION

#### a) Change in Non-Cash Working Capital Accounts

	Three Months Ended		Nine Months Ended	
	2017	July 31, 2016	2017	July 31, 2016
	\$	\$	\$	\$
Trade Receivables	1,592,175	(211,444)	(263,439)	181,088
Sales Tax Receivable	(104)	(78)	16,295	17,451
Inventories	37,396	191,889	(101,271)	344,026
Prepaid Expenses and Deposits	(3,972)	2,429	(11,946)	372
Trade and Other Payables	(1,052,812)	93,119	191,959	(252,437)
Sales Tax Payable	11,723	3,386	39,234	13,295
Income Taxes Payable	(75,312)	(21,604)	(45,051)	3,275
	(509,094)	57,697	(174,219)	307,070

#### b) Other Items

Interest Paid	12,762	17,288	42,420	56,661
Interest Received	2,996	2,848	12,177	4,921

### NOTE 12 – COST OF SALES

	Three Months Ended		Nine Months Ended	
	2017	July 31, 2016	2017	July 31, 2016
	\$	\$	\$	\$
Inventories, Beginning of the Period	541,996	359,863	403,329	512,000
Analysis Fees	4,920	5,330	18,420	12,044
Depreciation	100,186	87,627	293,312	254,989
Electricity	44,883	24,250	224,979	87,587
Fuel, Oil and Lubricants	5,621	2,885	31,477	7,387
Machinery Rental	59,936	40,846	247,385	92,088
Medical Expenses	1,280	35	5,041	1,551
Product Purchases	1,285,173	517,011	5,889,634	1,581,593
Professional and Project Management Fee	1,567	-	13,974	11,480
Protective Clothing	2,260	2,640	7,072	5,492
Provident Fund	3,134	2,661	9,109	7,979
Repairs and Maintenance	42,757	39,479	209,032	108,734
Salaries and Benefits	97,708	71,548	291,581	213,394
Transportation	70,067	41,415	414,697	180,655
Foreign Exchange Gain/Loss	-	-	-	(10,670)
Inventories, End of the Period	(504,600)	(167,974)	(504,600)	(167,974)
	1,756,888	1,027,616	7,554,442	2,898,329

# CANAF GROUP INC.

## Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended July 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

### NOTE 13 – GENERAL AND ADMINISTRATIVE EXPENSES

	Three Months Ended		Nine Months Ended	
	2017	July 31, 2016	2017	July 31, 2016
	\$	\$	\$	\$
Bank Charges and Interest	1,216	688	2,655	2,171
Bad Debts	-	-	6,595	-
Consulting Fees	16,916	17,046	49,900	51,677
Management Fees	28,778	23,319	91,441	74,415
Office, Insurance and Sundry	21,441	11,425	52,289	34,521
Professional Fees	19,809	21,262	60,863	58,022
Promotion	286	340	675	665
Telephone	3,512	3,942	11,618	11,025
Transfer Agent and Filing Fees	750	724	7,077	6,752
Travel	12,491	7,706	29,716	23,881
	105,199	86,452	312,829	263,129

### NOTE 14 – ECONOMIC DEPENDENCE

Sales from the Company's South African coal processing business are substantially derived from two customers and as a result, the Company is economically dependent on these customers. The Company's exposure to credit risk is limited to the carrying value of its accounts receivable. As at July 31, 2017, trade receivables of \$907,084 were due from these customers and were collected subsequent to period-end.

### NOTE 15 – COMMITMENT

The Company has an agreement to lease premises for its coal processing plant in South Africa for a term of ten years, expiring on December 31, 2020. The agreement offers the Company, in lieu of rent, feedstock coal to be delivered to its adjacent premises, which it purchases at market price. Should the Company decide to purchase feedstock coal from an alternative supplier which the lessor is otherwise able to provide, then a monthly rent of Rand 200,000 (\$14,846) is payable. To date, the Company has not been required to pay any rent for the premises as it has continued to purchase feedstock coal from the landlord.

# CANAF GROUP INC.

## Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended July 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

### NOTE 16 – SEGMENT INFORMATION

The Company operates in two reportable operating segments: the head office operations in Canada and the coal processing business in South Africa.

	Canada \$	South Africa \$	Total \$
<b>July 31, 2017</b>			
Net (Loss) Income for the Period	(125,887)	721,603	595,761
Revenues (Note 15)	-	8,443,667	6,482,459
Gross Profit (Loss)	-	889,225	684,905
Depreciation ó Cost of Sales	-	293,312	193,126
Interest Expense	-	42,420	29,658
Current Income Taxes Expense	-	-	-
Deferred Income Taxes Expense	-	(49,563)	27,146
Current Assets	85,405	2,066,347	2,151,752
Property, Plant and Equipment	-	1,202,245	1,202,245
Intangible Assets	-	1	1
Total Assets	85,405	3,268,593	3,353,998
	Canada \$	South Africa \$	Total \$
<b>October 31, 2016</b>			
Net Loss for the Year	(176,785)	(2,370)	(179,155)
Revenues	-	4,703,528	4,703,528
Gross Profit	-	103,065	103,065
Depreciation ó Cost of Sales	-	345,188	345,188
Interest Expense	-	71,721	71,721
Current Income Tax Recovery	-	(36,318)	(36,318)
Deferred Income Tax Recovery	-	(96,745)	(96,745)
Current Assets	63,737	1,408,889	1,472,626
Property, Plant and Equipment	-	1,256,691	1,256,691
Intangible Assets	-	1	1
Total Assets	63,737	2,665,581	2,729,318

# CANAF GROUP INC.

## Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended July 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

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### NOTE 17 – CAPITAL RISK MANAGEMENT

The Company's objectives in managing its capital are to ensure adequate resources are available to fund its coal processing business in South Africa, to seek out and acquire new projects of merit, and to safeguard its ability to continue as a going concern. The Company manages its share capital as capital, which as at July 31, 2017 totalled \$8,079,463 (2016 6 \$8,079,463).

The Company manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured through the sale of calcine in South Africa and, when necessary, through debt funding or equity capital raised by means of private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the case of operating cash deficits.

The Company may, from time to time, invest capital that is surplus to immediate operational needs in short-term, liquid, and highly rated financial instruments held with major financial institutions, or in marketable securities. The Company may also, from time to time, enter into forward foreign exchange and commodity price contracts to hedge a portion of its exposure to movements in foreign exchange and commodity prices.

The Company has no externally imposed capital requirements and has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future. There were no changes in the Company's approach to capital management during the period ended July 31, 2017.

### NOTE 18 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to various risks in relation to financial instruments. The Company's financial assets and liabilities by category are summarized in Note 2(o) of the audited financial statements. The Company's risk management is coordinated at its head office in Canada in close co-operation with the board of directors and focuses on actively securing the Company's short to medium-term cash flows and raising finances for the Company's capital expenditure program. The Company does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Company is exposed are described below.

#### a) Foreign Currency Risk

Foreign exchange risk arises because of fluctuations in exchange rates. The Company conducts a significant portion of its business activities in foreign currencies. The Company's subsidiaries, principally located in South Africa, routinely transact in the local currency, exposing the Company to potential foreign exchange risk in its financial position and cash flows.

The assets, liabilities, revenue and expenses that are denominated in foreign currencies will be affected by changes in the exchange rate between the United States dollar and these foreign currencies. The Company has outstanding debt obligations that are payable in South African Rand. The Company does not currently use financial instruments to mitigate this risk.

# CANAF GROUP INC.

## Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended July 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

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### NOTE 18 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### b) Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company limits its exposure to credit loss for cash by placing its cash with high quality financial institutions and for trade receivables by performing standard credit checks. The credit risk for cash and trade receivables is considered negligible since the counterparties are reputable banks with high quality external credit ratings and customers with no history of default.

The Company has credit risk exposure related to its economic dependence on two customers for its calcine sales (Note 14). The Company has assessed its exposure to credit risk and has determined that no significant risk exists from these concentrations of credit.

#### c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company ensures, as far as reasonably possible, that it will have sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company has working capital of \$1,300,946 as at July 31, 2017. There can be no assurance that the Company will continue to be successful with generating and maintaining profitable operations or will be able to secure future debt or equity financing for its working capital and expansion activities.

#### d) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest on the Company's bank loan is based on fixed rates, and as such, the Company is not exposed to significant interest rate risk.

#### e) Commodity Price Risk

The Company's revenues, earnings and cash flows are directly related to the volume and price of calcine sold and are sensitive to changes in market prices over which it has little or no control. The Company has the ability to address its price-related exposure through the use of sales contracts.

#### f) Fair Value

The Company uses the following hierarchy for determining fair value measurements:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

# CANAF GROUP INC.

## Notes to the Interim Consolidated Financial Statements

For the Nine Months Ended July 31, 2017

(Expressed in U.S. Dollars)

(Unaudited)

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### NOTE 18 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### f) Fair Value

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The Company's financial assets measured at fair value through profit or loss use Level 1 valuation techniques during the period ended July 31, 2017 and October 31, 2016. The carrying values of the Company's financial assets and liabilities approximate their fair values as at July 31, 2017.